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Weekly Contributions  
Latin America Division, ORE, CIA  
10 January 1950

Of the items reported on this week, D/LA finds that on the effects of COAS action on Caribbean disputes of particular interest (p. 4).

CURRENT DEVELOPMENTS

NORTHERN AREA: Panama's government may be taking steps to curtail police influence (p. 2). Guatemala's influential Col. Arbenz has a doubtful political future (p. 2). Plots against Cuba's government are not expected to be successful (p. 2).

CENTRAL AREA: In Colombia, recent government action worsens prospects for foreign investment (p. 2). In Venezuela, adverse effects will be felt as the result of the British reduction of dollar oil imports (p. 3). Venezuela's junta has reestablished municipal councils (p. 4).

GENERAL: Inter-American action on the Haitian-Dominican dispute is expected to yield short-term benefits (p. 4).

SPECIAL SUBJECTS

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1. PANAMA: Possible step toward curtailment of police influence

President Arias is [ ] initiating a semi-military organization known as the Guardia Civil, which may eventually be used, in conjunction with the Secret Police, as a counterpoise to the National Police. [ ] appears to be in line with the President's avowed intention to curtail the power and influence of the National Police, who played a key role in the coups of November, and whose support in the past has been essential to any president's continuance in office.

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25X12. GUATEMALA: Political Future of Col. Arbenz in Doubt

Because of the alleged complicity of Minister of Defense Arbenz in the assassination of the popular Col. Arana in July 1949, and because of his opportunistic political behavior, it is likely that many persons within the Arévalo administration and the revolutionary political parties now feel him to be a political liability. Arbenz cannot easily be repudiated or ignored, however, because he is a key member of the administration with pronounced presidential ambitions and the ability to attract supporters. In fact, the administration appears obligated to protect him from adverse criticism and possible assassination by those who wish to avenge Col. Arana's murder. It is logical to believe, therefore, that Arévalo may hope to dispose of him in some politic manner --- possibly by arranging for his residence abroad. Some evidence that a solution to the Arbenz problem is being sought is [ ] that Col. Victor Sandoval (Chief of the Civil Guard and brother-in-law of Arévalo) traveled to San Francisco to discuss the "disposition" of Col. Arbenz with the local Guatemalan consul.

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Although Arbenz has, of late, expressed his willingness to use his influence on behalf of US business interests in Guatemala, his reputation as a supporter of militant leftists is such that his removal from the local scene might improve, rather than impair, US-Guatemalan relations.

3. CUBA: [ ] plot to overthrow the Prío government of doubtful importance

A plot to overthrow the Prío government [ ] from Cuba. [ ] the plotters as a "large group of Cuban Army officers" while [ ] that Trujillo is allegedly in alliance with "certain Cubans" to oust Prío. On the basis of preliminary information, D/LA estimates that the present rumors are of doubtful significance as a successful coup d'état is considered unlikely at this time.

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4. COLOMBIA: Prospects for Foreign Investment Worsen

Foreign investment suffered another setback last week when the long-awaited modification of petroleum legislation was finally

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promulgated as a decree-law without the expected modifications which the oil industry considered necessary to any increase of exploration activities. If current government policies generally can be taken to be those of President-elect Laureano Gómez (and it seems clear that little is done to which he is strongly opposed), the recent decree-law runs contrary to Gómez' publicly announced desire to encourage foreign investors.

Although in 1949 there was no absolute decline in new petroleum investment, (because of heavy expenditures by one or two companies to develop fields already under exploitation), such investment was substantially less in 1949 than it would have been had the Colombian government provided conditions attractive to new capital. Various companies withdrew from Colombia entirely, and others, with substantial amounts already invested, awaited the new legislation which has since proved to be disappointing.

Private foreign investment other than petroleum has decreased markedly in the past two years. New investments, which in the first nine months of 1947 amounted to \$2,233,000, were \$625,000 for the first nine months of 1948 and only \$154,000 in the first nine months of 1949. Although, because of high coffee prices, Colombia's 1950 balance of payments is expected to be such that Colombia will not need the foreign exchange from new investment, nevertheless, it will be a serious setback to Colombian development, and hence to long-term economic stability, if the present trend of declining foreign investment is allowed to continue.

5. VENEZUELA: Effects of British Reduction of Dollar Oil Imports

Officials of the Venezuelan government, of the American oil companies, and of US Embassy Caracas have expressed considerable anxiety regarding the anticipated effects of British restriction of dollar oil imports. The immediate result is expected to be curtailment of production by American companies, among which Creole, the leading producer, has already cut back by 46,000 barrels daily (a reduction of approximately 7%) beginning 1 January. The Shell group, on the other hand, is expected to increase its production by an amount roughly equivalent to the reduction by American companies.

A decrease in production of dollar oil in Venezuela would have repercussions, serious in proportion to the amount of decrease, affecting US interests as well as internal, economic, and political stability. One effect would be to weaken Venezuela's hitherto strong dollar position, with a consequent tightening of a leading market for US exports in Latin America. Another effect would probably be an increase in unemployment, since it is anticipated that Shell would be unable to reabsorb all workers dismissed by the American companies. The Communists would undoubtedly exploit to the fullest the possibilities for anti-American propaganda inherent in a situation of increasing unemployment.

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6. Reestablishment of municipal councils

The reestablishment of municipal councils by decree of the military junta government on 23 November is significant, not because the councils are in themselves important, but because they offer scope for political activity practically non-existent until now, and also because their political complexion serves as a possible indication of the junta's policy towards political parties. Designation of council members by the state governors with approval of the junta is now in process throughout the country. The council of the Federal District was reestablished on 20 December with a membership of eleven, including two representatives of the Unión Republicana Democrática (URD), two of the Comité Organización Política Electoral Independiente (COPEI), and seven independents. The naming of a majority of independents is a pattern apparently being followed in other cities. The minority position of URD on the councils, and the balancing of URD with COPEI representatives, suggests that it is unlikely, as previously rumored, that URD will become the government-sponsored party. It is by no means clear that the junta intends to support any political party. If it should do so, however, its support would probably be given to a new party formed about the nucleus of independents on the municipal councils and similar bodies yet to be named.

7. GENERAL: Effects of COAS Action on Caribbean Disputes

The decision on 6 January 1950 of the Council of the Organization of American States (COAS) -- to constitute itself a provisional organ of consultation until a meeting of foreign ministers can be held -- follows the pattern of the one previous occasion that the Rio treaty machinery has been used since it came into effect in December 1948, and can be expected to have comparable effects in easing Caribbean tension over the short term.

In the present case of the Haitian-Dominican dispute, the same technique has been employed to permit action by the council as was used in the conflict between Costa Rica and Nicaragua in December 1948 -- announcement of a meeting of foreign ministers without setting a date or place (and it is unlikely that a date or place will be set). A similar course has also been followed in deciding on a fact-finding committee to make a thorough study of the Caribbean situation.

The dispatch with which the council acted in the dispute between Costa Rica and Nicaragua may well have been the deciding factor in halting the development of the border fighting and preventing further development of that particular incident. The present Haitian-Dominican controversy -- and also the recent Cuban-Dominican difficulties already taken up by the Inter-American Peace Committee (see D/LA Wklies, 28 Dec 49 and 4 Jan 50) -- are symptomatic of the tensions prevailing in the Caribbean for some time. Among the contributing factors are the limited

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opportunities for economic advancement outside political and military activities, the long standing struggle between democratic and authoritarian elements throughout the area transcending national boundaries, the traditional hospitality of countries of this area to each other's political exiles, and the general good repute of the profession of revolutionary. While inter-American machinery can make substantial contributions by focusing attention on the natural manifestations of these difficulties and by moderating their expression and thus preventing serious outbreaks of open warfare, it cannot by itself solve permanently the political and economic roots of these difficulties.

D/LA believes that the council's decision to study the Caribbean situation, including the Haitian-Dominican controversy, will contribute toward clearing the air, and that it will afford at least a temporary relief of tension. Such a result, even if the cure is of symptoms rather than of the disease, would increase the prestige and usefulness of the Rio treaty, and strengthen the outward machinery of inter-American solidarity against more serious tests.

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Situation Memorandum 1-50

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The Current Situation in Chile

(Summary -- The present Chilean government has maintained its rather precarious stability during the past few months. Its principal problem is the imbalance of its economy which can scarcely be stabilized before further dislocations. The armed forces continue to support the regime but without any great personal loyalty to the present incumbents of high civilian posts. Recent disturbances indicate that the Communist potential is still such as to cause concern. In spite of these unfavorable factors, however, the present regime will probably maintain itself during the forthcoming six-month period. Internationally, Chile's affairs have improved notably within the last three months.

-- Recent changes have not significantly affected US security interests.)

Political

The González Videla government has been maintained in its rather precarious stability as much by the inability of its enemies to unite as by its own defensive measures. The principal political problem faced by the administration is Chile's unfavorable economic situation which provides the opposition with most of its ammunition against the present regime. González Videla has attempted to meet the situation by a program of development and has managed to dragoon the reluctant members of his coalition into supporting a new monetary exchange policy -- a significant political achievement whether the policy is ultimately effective or not. He also prevented the defection of a significant faction of his own party to the opposition by a strategic diplomatic appointment and a subsequent reorganization of the party's central committee. Meanwhile, the attempts of opposition parties to unite into larger and more effective blocs have proved unsuccessful. The more covert threat of plotting by military, oppositionist, and Communist groups has been countered, to date, by government vigilance and effective action in the few disturbances that -- like the November Communist outbreak (D/LA Wkly, 15 Nov 49) -- showed evidences of careful planning. There has apparently been little correlation of effort between the several subversive groups.

Inasmuch as little real progress appears to have been made in resolving Chile's economic difficulties, the discontent of diverse sectors of the population and the maneuvering of opposition factions are expected to continue during the first half of 1950, increasing the pressures on the González Videla regime. D/LA estimates, however, that the government will survive these pressures because united opposition is not expected

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within this period and the present administration has shown its ability at political extemporization in difficult situations, aided by the basic moderation and relative political maturity of the Chilean people.

#### Economic

Chile's economic problems have caused increasing concern since mid-1949 and it appears that the remedial measures undertaken by the government may not prevent adverse effects on employment and the Chilean standard of living before eventual improvement can result. In essence, there is a race between the effects of a decline in copper revenues and the hoped-for results of new industrial developments, financed by government borrowing. The Chilean government has decided that the only way to meet the situation is to resort to deficit spending and further credit operations to finance industries that -- in time -- should provide new pay rolls, additional export revenues, and savings in foreign exchange. The recently completed Export-Import Bank loan covers only a very small part of the contemplated program and an additional loan of 1 billion pesos is expected to be floated in Chile. While the Huachipato steel project has received more publicity, there is increasing sentiment in favor of agricultural, small-manufacturing, electrification, petroleum and lumbering projects as opposed to the development of heavy industries; and this sentiment is reflected in the government program for 1950.

The effects of Chile's unfavorable exchange position, reflecting the general economic difficulties mentioned, placed increasing pressure on the peso, causing the government to decide on a substantial devaluation of the peso. The decision set off bitter political bickering, as conservatives oppose continued government controls while the liberals and radicals fear the inflationary effect on the cost of living -- already a matter of concern because of crop failures and reduced employment. Opposition forces continue their cannonading against the measure as actual implementation awaits the result of consultation with officials of the International Monetary Fund.

Neither progress toward long-range industrial development nor adjustment of exchange rates can be expected to resolve immediately Chile's problems. The best that can be expected for the current year would be a relatively easy adjustment to decreased national income and governmental revenue. Since this inevitably involves a certain degree of discontent and political pressure, D/IA estimates that the Chilean economic situation during the first half of 1950 will continue to provide serious problems to the administration regardless of the relative success of its measures or of the amount of additional credit that may be obtained.



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#### Military

The armed forces continue to support the government out of loyalty to the institutions rather than to the present incumbents of office. [ ] military plotting [ ] it is believed that such movements are largely directed by individuals not in active military service and that the extent of the plotting is rather limited. D/LA estimates that serious danger will not originate in this quarter during the next six months.

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#### Subversive

Recent disturbances and open Communist threats indicate that the Communists still have the ability to exploit favorable opportunities to harass the government and to create trouble. Although popular discontent over economic conditions is likely to provide a situation increasingly favorable to Communist-inspired disturbances, it is estimated that the government will continue to exercise sufficient vigilance and authority to thwart any serious threats to its stability. Subversive plots by other than Communists will continue to be of minor importance during the next few months.

#### International

Chile's international relations have improved within the past quarter year. Serious friction with Argentina, growing out of Argentine statements during the August disturbances in Chile and alleged Argentine involvement in Bolivian affairs, has been terminated and better relations were initiated by an exchange of friendly sentiments between President González Videla and President Perón. Chile's vigorous anti-Russian activity in the UN and its general support of US policies have kept US-Chilean relations on the most cordial terms — a condition which was heightened by the completion of the Export-Import Bank loan arrangements.



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The Current Situation in Honduras

(Summary -- The Galvez administration remains stable despite its ineffectiveness. The economic situation is relatively favorable. Some small-scale subversive activity has developed. The military capabilities of the army have been substantially reduced, but the air force continues both efficient and loyal.

-- Nothing in the current situation importantly modifies long-standing advantages for US security interests deriving from Honduras' thoroughgoing support of the US and of Hemisphere unity.)

Political

The administration of President Galvez, which has just completed its first year in office, has, contrary to expectation, little solid achievement to its credit. Official corruption continues unabated despite an inaugural promise of "absolute honesty in the handling of funds." The much-heralded road-building program has made barely perceptible progress. Army morale is at a low ebb. The cabinet, with the exception of Vice President and Minister of Interior Lozano, is notably lacking in competence and leadership. The President himself has demonstrated a lackadaisical approach to public affairs

Ex-President Carias, while he does not interfere with his successor's administration, is reportedly concerned with the seemingly indiscriminate abandonment of authoritarian controls. Former Vice President Williams, politically dominant in southern Honduras and a warm personal friend of the President's, is "unenthusiastic" about Galvez' record so far. However, such little domestic opposition as there is to date appears to be confined to Arab businessmen, who resent the recently enacted income tax; personal adherents of Carias, who have been removed from their former lucrative jobs; and the surviving remnant of the moribund Liberal (opposition) Party. D/LA believes that these elements are neither sufficiently strong, united, or determined to constitute a serious threat to the stability of the administration during the next six months.

Economic

Economic activity remains at a satisfactory level. Fruit Company expenditures in Honduras, presently averaging around \$5 million a quarter, provide ample dollar exchange for the country's import requirements. Because of storm damage to fruit trees, banana exports for the three months ended 30 September totaled only 3,800,000 stems, a 15% drop from the preceding quarter. Increased banana shipments are currently anticipated, however, as a result of new plantings and more favorable weather conditions. The expanded United Fruit Company concession, recently approved by the congress (see D/LA Wkly, 22 Nov 49), should ultimately provide a greater volume and

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variety of agricultural exports. While Honduras is a relatively small exporter of coffee (8 million pounds in the fiscal year 1948-49), the recent rise in the price of that commodity has increased the cash income of many small upland farmers. During the last six months there has been modest industrial development in the form of a new match factory, sugar mill and a modern plant for the production of farinaceous foods. A new and burdensome export tax on lumber has caused a sharp reduction in lumbering operations with some unemployment resulting. In general, however, prospects of continued relative prosperity in Honduras are favorable.

#### Subversive

There is some possibility that nationalistic criticisms of the United Fruit Company concession were at least partly inspired and financed from abroad. Reprints of Guatemalan editorials attacking United Fruit and other inflammatory fly sheets of apparently foreign origin were circulated in Tegucigalpa and the north coast banana region. There was no very great response to this propaganda, which subsided with congressional approval of the concession. While some of this activity may have been inspired by foreign Communists, D/IA believes that whatever support it gained in Honduras was primarily from extreme nationalists rather than Communists, who at present are a relatively unimportant factor.

#### Military

The Honduran army has deteriorated steadily in size, organization, and efficiency since Galvez' inauguration. It is doubtful that at present the army could maintain internal order if a major domestic crisis arose. The loyalty of the Palace Guard is doubtful, owing largely to the meddling of the President's "military adviser", his Mexican brother-in-law. Galvez appears to have deferred promised reforms in the military establishment for fear of reprisals on the part of the semi-autonomous departmental commanders. On the other hand, the air force, one of the best in Central America, continues to enjoy a favored position as it did under Carías and remains loyal. In the event of any revolt or armed conflict in the near future, the security of the regime would depend almost entirely on the efficacy of the air force.

#### International

Honduras continues aloof from Central American-Caribbean power balance rivalries and maintains, at least superficially, cordial relations with its neighbors. Early in December, the government's seizure of a small arms cache near the Guatemalan border reportedly thwarted plans for a Caribbean Legion-supported plot to overthrow Galvez. If such a plot actually existed, it was ill-conceived and apparently did not have Guatemalan government support. While future small-scale Legion activity against the Honduran government cannot be ruled out as a possibility, it would have little chance of success until domestic opposition to Galvez becomes considerably more widespread and militant.